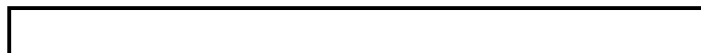


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~~SECRET~~**103. The Soviet Union and International Economic Organizations**

Since the end of World War II, there have been a number of international organizations which promote financial stability and currency reform, provide development funds to underdeveloped countries, or provide technical assistance and promote multi-lateral international trade. The International Monetary Fund (IMF) provides a central repository of strong currencies from which countries having balance of payment difficulties can borrow; the International Bank for Reconstruction and Development (IBRD) provides development funds to governments for large-scale projects and the UN technical assistance program is a third major international effort. The drive towards convertibility (free exchange of one currency for another) has been increasingly successful and has assisted in the promotion of multi-lateral trade. (Bi-lateral trade results from agreements between two countries under which any imbalance is required to be paid off in the currency of the creditor; multi-lateral trade enables a country to balance its debts to one country with the credits of another,) Assistance granted through the IBRD, IMF, and UN programs has been characterized by economic soundness and freedom from political manipulation. The Soviet Union's participation in this great international effort has been minimal. The USSR is not a member of the IBRD or the IMF and has, in fact, been a critic of the programs of these organizations. It does contribute to the UN technical aid program, but the entire Bloc contribution amounts to less than 5% of the total UN assistance budget. The United States contributes 60%; India alone contributes half as much as the Bloc; together the underdeveloped countries of Africa and Asia contribute more than the Bloc. The small contribution of the Bloc is hardly ever drawn upon because of the non-convertibility of the ruble.

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104. Soviet Diplomats and Communist Subversion

Under Khrushchev's rule the Ministry of Foreign Affairs has been turned into a more efficient instrument for promoting international communism. In line with Khrushchev's policy of re-establishing Party influence in all the fields where professional interests had tended to predominate over Party interests -- in industry, in the Army, in foreign affairs -- a large number of former Party and government careerists from other departments have been assigned to leading posts within the Ministry of Foreign Affairs. Throughout the Bloc, except in Albania, men with Party or government administrative experience have taken the place of men trained in the diplomatic service. Outside the Bloc men who had been First Secretaries in the Party apparatus or specialists in some other field than foreign affairs, have also been appointed to ambassadorial posts in critical free world areas such as Menshikov in the U.S., Pegov in Iran (who was withdrawn again in March), and Ryzhov in Turkey. The most recent case is the appointment in early June 1959 of Col. Gen. Terentiya Fomich Shtykov, a former First Secretary in the Party apparatus in Eastern Siberia, as ambassador to Hungary. The distinction between Soviet Government, which normally deals in foreign relations, and the CPSU which normally deals in International Communism, has never been marked and is practically nonexistent since Khrushchev became leader of both the Party and the Government. The fact that so many members of the diplomatic service are now chosen from among Party faithfuls rather than among career service men has quite normally led to a close identification of Soviet diplomats with Communist subversion. This accounts, at least in part, for the many and flagrant violations of diplomatic norms which have led to numerous expulsions.

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105. Hungarian Travel Restrictions on US Diplomats

Inspired at least in part by a determination to retaliate for the success of the US-led International Labor Organization's movement rejecting the credentials of the Hungarian delegation, the Hungarian regime on 6 July imposed rigid restrictions on the travel in Hungary of members of the US Legation. These restrictions prohibit travel beyond a radius of 40 kilometers from Budapest. Journeys outside this radius require a special permit issued by the Hungarian Ministry upon receipt of a note of application submitted at least 48 hours prior to departure. This move was justified by the charge that the US Government was conducting from the Legation "machinations against the Hungarian people's way of life conducted either openly or in secrecy under cover of diplomatic relations". The Hungarian note to the US outlining these restrictions continued to assert that its primary desire is to improve the relations between the two countries and that it welcomes any initiative by the US Government to this end. On July 7 the Department of State handed to the Hungarian Charge d'Affairs an aide-memoire concerning the restriction of travel of Hungarian official personnel in the US, duplicating the restrictions issued by the Hungarian regime and applying both to Washington and to Hungarian representatives to the United Nations in New York. At the same time the Hungarian regime has refused permission to Sir Leslie Munroe to travel to Hungary in either an official or a non-official capacity, a request he had made in order to fulfill his responsibilities as the designee for the UN Special Committee on the Problem of Hungary. This refusal will remain in force for the duration of his assignment to the position by the UN.

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On 5 July, shortly after his return from his world tour, President Sukarno dissolved the Constituent Assembly and decreed a return to the 1945 Constitution which places great power in the hands of the executive. During his absence and at his request a vote had been taken on the same question which was supported in the Assembly by both the Communist Party (PKI) and the Nationalist Party (PNI) but the motion was defeated. Communist support of the motion is construed as a defensive measure against the Army coup which they feared should the motion not pass. Sukarno has announced the composition of the ten-man "Nucleus Cabinet" giving the key portfolio of Security/Defense to General Nasution and including one other Army officer. Djuanda, Prime Minister of the former cabinet, has been appointed First Minister and Foreign Minister Subandrio has retained his position. Army officers hold 14 of 41 seats in the full cabinet list. Sukarno as Premier and supreme commander, together with the "Nucleus Cabinet" will rule by decree, implementing his concept of "Guided Democracy" -- an ill-defined philosophy which professes adherence to democratic principles while maintaining a lack of political and social sophistication on the part of the Indonesians which precludes normal electoral processes and requires that they be "guided" toward participation in government by appointment to representative positions rather than by popular election. The PKI is not represented in the "Nucleus Cabinet" nor among the vice-ministers although three have records as fellow travellers or Trotskyite Communists. The "Guided Democracy" concept, as propounded by Sukarno, includes provision for the appointment of representatives of labor, youth, veterans, and other functional groups to fifty percent of the parliamentary seats, which could still give the PKI important influence, although the Army is expected to take a strong hand in determining that anti-Communists are appointed.

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In late May the Moscow-Belgrade polemics described in earlier guidances faded significantly, with an absence of anti-Yugoslav attacks in the press, radio and the propaganda media of the USSR and Soviet dominated countries of Eastern Europe. At the same time Yugoslavia voiced its support of the Soviet concept of an "atom free zone" in the Balkans as a major step toward peace. That the lull in the debate was only temporary and superficial was made clear on 5 July, when Yugoslav Vice President, Aleksander Rankovic, in a speech to a rally of World War II Partisan fighters accused the Soviet bloc of resuming its anti-Yugoslav campaign, asserting that the attacks had been resumed by Bulgaria and Czechoslovakia and, in even more violent form, by Albania. Rankovic attributed the lull to political expediency on the part of the Bloc during Khrushchev's visit to Albania. Yugoslavia was fully aware of this superficial tactic designed to insure support of the "atom free" proposals put forward by Khrushchev. Rankovic rounded off his comment on the renewal of the Bloc anti-Yugoslav campaign with the following unequivocal prognosis: "blows from the Soviet bloc have been without result for eleven years and will remain without result". On 7 July Radio Belgrade took up the attack with a broadcast of excerpts from the Yugoslav party organ Borba criticising in bitter terms the publication in Budapest of the book Revisionism-The Greatest Danger, which, Borba states, "arouses grave doubts about the sincerity of the statements made by the Hungarian and other leaders of the socialist camp" and charging that "four-fifths of this book is devoted to attacks on Yugoslavia and the policy and program of the League of Communists of Yugoslavia". Particular criticism was directed against bloc distortion of the Yugoslav economic position. Referring to Yugoslavia's record increase in industrial production and its rich harvest during the past year, the broadcast states "the press in the socialist camp countries passes in silence over these successes". Thus, the broadcast quotes Borba, "with the exception of Poland", which did publish a number of items on the harvest, bloc populations have not been "in a position either to acquaint themselves with the real rate of Yugoslav industrial development, or with the remarkable successes in agriculture achieved with cooperatives". Yugoslav cooperative farming has produced so much wheat that the import of wheat has stopped for the first time since World War II.

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~~SECRET~~**108. The Current Posture in Iraq**

Tensions between Communists and anti-Communist nationalists increased prior to the 14 July anniversary of the revolution. A number of clashes between coffeehouse partisans for each side occurred in Baghdad on 4 and 5 July and security forces were compelled to intervene. In a press interview and a speech to the Popular Resistance Force on 5 July, Qasim implied that the bulk of the blame for factional strife lies with the Communists and specifically opposed their new "united national front" as an improper move during what he calls Iraq's "transitional" period. Qasim rebuked the principal Communist newspaper and the pro-Communist director of Baghdad radio was arrested. Iraq's relations with the USSR remain close and deliveries of Soviet military equipment continue. The deputy foreign ministers of the USSR, Red China, Czechoslovakia, and Poland attended the anniversary celebration in an attempt to impress Qasim and reverse the recent trend. Qasim has, however, ordered 14 British Canberra jet bombers in an effort "to balance Iraq's foreign relations". On 13 July Qasim announced the appointment of a new Cabinet which was locally heralded as containing no Communists although reporting from Cairo has questioned the veracity of the claim. At least three of the new appointees are known to have leftist inclinations and may reflect Qasim's continued inclination to temporize with at least the moderate wing of the Communists. Qasim has promised to "restore political life in Iraq" and to hold elections within one year. Key army officers have predicted that Qasim will purge the remaining key Communists in the army and government. Although it seems likely that the Communists will avoid a direct trial with Qasim at this stage, their fear of a more permanent decline may spur them to try extreme tactics to maintain their position.

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Since becoming President of France a year ago, Charles de Gaulle has scored dramatic successes. The personal magnetism that propelled him to the forefront when the Fourth Republic was crumbling, has enabled him to become the architect of all French national policy, both foreign and domestic. His currency reform, trade liberalization and austerity programs have stabilized the French franc -- an essential pre-requisite to the political, economic, and social renaissance which de Gaulle is determined to bring about. He has said: "France cannot be herself without being great. It is precisely de Gaulle's sense of France's "mission" that has caused irritation and embarrassment among her allies. In foreign policy, de Gaulle above all seeks a major role with the US and UK, including tripartite US-UK-French political and military strategic planning. To this end he is determined to detonate a French nuclear bomb as soon as possible, hoping thereby to join the community of atomic powers, and to promote greater French equality within and outside the Big Three. Examples of de Gaulle's foreign policy moves have been his removal of the French Mediterranean Fleet from the NATO commitment in time of war; his overtures for closer links with the Bonn Government; and his recent refusal to permit stockpiling of nuclear weapons in France under U.S. control. This latter action necessitated the withdrawal from France of 200 U.S. fighter-bombers committed to NATO. While sometimes embarrassing to France's NATO allies, de Gaulle's policy has been consistent and consonant with his somewhat mystic compulsion to restore a much more important role for France. However, the success of the de Gaulle regime is, of course, in part dependent on its ability to find a solution in Algeria, and its chances of doing so cannot yet be accurately judged.

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During the second plenum of the Central Committee of the Polish Communist Party, June 22nd, Gomulka announced important changes in plans for agricultural development. As a consequence of the thaw in 1956 the amount of land held in collective was rapidly reduced from 8.6% to 1.2%. Despite this decline in collective farming the private Polish farmer has not stepped up his purchase of heavy machinery nor investment in new buildings, reflecting an awareness of the possibility of re-collectivization. Following the Polish October the peasants formed, independently but with the support of the government, "agricultural circles". These circles, similar to pre-war peasant organizations, are a form of cooperative in which private ownership of land is retained but mutual assistance is provided, heavy machinery is purchased jointly, and produce marketed by the circles rather than the individual. The 2nd plenum's decision is an attempt to induce agricultural investment thru the "circles". Gomulka stressed the central role of the "circles" which should own the farm machinery, provide the investment funds for agriculture and ultimately direct agriculture along the road to "socialist development". Collectivization was described by Gomulka as "distant" although "inevitable". Despite the ideological jargon, Gomulka's immediate purpose is increased production which he knows cannot come if the peasant feels collectivization imminent.

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